

DEPARTMENT OF FINANCE AND ADMINISTRATION - POLICY 05

Policy 05 - Application of GASB Statement 3 - Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements

Applicable State Law

1. According to T.C.A. 4-3-1007, the Department of Finance and Administration "shall have power and shall be required: (1) to maintain a system of general accounts embracing all the financial transactions of the state government; ... (6) to prescribe by means of written procedures ... the responsibilities and duties required of each fiscal officer of any and all departments, institutions, offices, and agencies of the state government ... [which] shall become effective upon approval by the commissioner of finance and administration and the comptroller of the treasury; ... (10) to exercise the rights, powers and duties (except the power to collect taxes), conferred by law upon the comptroller of the treasury ... insofar as these provisions relate to financial administration and general accounting control of the state government, involving the keeping of general accounts, ... [and] (11) in consultation with the comptroller of the treasury, to establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control..."

Applicability and Effective Date

2. The requirements of this Policy Statement 05 apply to all issuers of financial statements which purport to represent the financial condition of the State of Tennessee or any subdivision thereof. Policy Statement 05 shall be effective for financial statements issued for the fiscal year ended June 30, 1992, and all subsequent fiscal years. This statement overrides the original statement issued 9/88, as well as a supplement to the policy issued 7/91.

General Rule

3. All financial statements which purport to represent the financial condition of the State of Tennessee or any subdivision thereof shall be prepared in accordance with the requirements of this Policy Statement 05 (which serves to interpret GASB Statement 3), the requirements of GASB Statement 3, GASB Technical Bulletin 87-10, and any subsequent interpretations of GASB Statement 3 or other pronouncements provided by the GASB superseding GASB Statement 3, in addition to the requirements of any applicable state or federal law, any other applicable policy statement issued by the Department of Finance and Administration, and any other applicable accounting standards issued by the GASB and/or the FASB.

Definitions

4. The following definitions shall apply in the preparation of footnote disclosures required by GASB Statement 3:

A. Deposits Versus Investments - 1) Disclosure Purposes: The footnote disclosure required for deposits shall include information relating to cash, cash with fiscal agent, CD's (certificates of deposit), and both open and time accounts with financial institutions, regardless of the maturity date of the instrument. All other items for which footnote disclosure is required shall be classified as investments. Furthermore, the carrying amount of these items shown in the footnote disclosures shall equal to, singularly or in sum total, to the amount shown for such items on the face of the financial statements. This requirement does not, however, prohibit there being additions to or subtractions from the carrying amount shown in the footnote disclosure in order to attain the most informative or complete disclosure.

2) Balance Sheet Purposes: The balance sheet presentation of deposits and investments shall be classified into cash and cash equivalents in accordance with the following definitions:

a) Cash includes currency on hand and demand deposits. Demand deposits include deposits with banks, other financial institutions, and cash management pools, i.e., accounts in which cash deposits may be made at any time and be withdrawn at any time without prior notice or penalty. The Pooled Investment Fund administered by the state Treasurer is considered a demand deposit. Funds (e.g. Highway Fund, Capital Projects Fund, etc.) with deposits in the Local Government Investment Fund, a component of the Pooled Investment Fund, should report the deposits as interfund receivables in the Consolidated Annual Financial Report.

b) Cash equivalents are both (1) readily convertible to known amounts of cash, and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, e.g., Treasury bills, certificates of deposit, or money market funds. Only investments with original maturities of three months or less should be included as a cash equivalent. Original maturity means the original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill, and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining term is three months.

B. Securities On Loan - Until such time as the GASB addresses the categorization of securities on loan, these items will not be categorized by class of risk.

C. Agency Funds - Information relating to instruments held in agency funds, as determined at the *highest level of detail*, shall be included with information relating to other instruments for which footnote disclosure is required by GASB Statement 3, and as such shall be classified and categorized in levels of risk in order to comply with such requirements. However, the deferred compensation fund is hereby exempted from this requirement. By *highest level of detail* it is meant that, for example, monies invested by lead college or university for area schools are, for purposes of applying this policy statement, agency funds, even though this does not hold true when information is condensed in the preparation of the Comprehensive Annual Financial Report.

D. Assessment of Risk Greater During the Period Than at the Financial Statement Date - "If the amount of an entity's 'Uncollateralized' deposits [paragraph 67b(3)] or 'Uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the entity's name' (paragraph 68c) during the period significantly exceeded the amounts in those categories as of the balance sheet date, that fact and the causes should be briefly stated. The amounts in those categories during the period could have exceeded those as of the balance sheet date because of increased amounts of deposits or investments, changes in practices, changes in the mix of investment types, or for other reasons" (paragraph 73).

For purposes of complying with this requirement of GASB Statement 3, the reporting entity shall review collateralization and determine classification and risk categorization for all deposits and investments at least as frequently as is required by TCA 9-4-404, and any amendments thereto, or as is required by the policy of the State Board of Regents, or as is required by the policy of the Board of Trustees of the University of Tennessee, whichever is applicable. If through such periodic review, it is determined that deposits or investments are exposed to a significantly greater level of risk than that which exists at the balance sheet date, that fact and the causes shall be disclosed in the footnotes to the financial statements.

Rules of Procedure

5. The definitions and interpretations as stated in Paragraph 4 shall be used in application of GASB Statement 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. Specifically, these definitions shall be used in the determination of the information to be disclosed, and the classification and categorization of deposits and investments for purposes of footnote disclosure, as well as balance sheet presentation.

Qualifier Relating to Other Disclosure Requirements

6. This Policy Statement 05 is intended to aid in the interpretation of the primary requirements of GASB Statement 3. It is by no means intended to be all encompassing or to take the place of the financial statement preparer's full knowledge of the requirements of GASB Statement 3.

Approvals

Approval of Commissioner of Finance and Administration - I, C. Warren Neel, Ph.D., hereby approve of this Policy Statement 05 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: _____ Date: _____
C. Warren Neel, Ph.D., Commissioner
Department of Finance and Administration

Approval of the Comptroller of the Treasury - I, John Morgan, hereby approve of this Policy Statement 05 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: _____ Date: _____
John Morgan, Comptroller
Office of the Comptroller of the Treasury